

Message Text

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47

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-02 PA-03 PRS-01 USIA-12 ABF-01 AGR-20

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 9374

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E. O. 11652: N/ A

TAGS: EFIN IT

SUBJECT: MILAN BANKERS' VIEWS ON ITALIAN ECONOMIC RECOVERY
AND EXPERIENCE WITH DUAL FLOAT

PASS TREASURY AND FRB

REF: ROME 5478

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1. SUMMARY. TREASATT VISITED MILAN JUNE 12-15 FOR PERIODIC TALKS WITH MILANESE BANKERS. CONCLUSIONS OF VISIT WERE: (1) THERE IS GREATER CONFIDENCE IN ITALIAN ECONOMIC RECOVERY THAN WAS THE CASE IN DECEMBER 1972; (2) TO DATE DUAL LIRA FLOAT DOES NOT SEEM TO HAVE ADVERSELY AFFECTED FOREIGN TRADE, AS VARIETY OF MEASURES ARE BEING USED BY TRADERS TO PROTECT THEMSELVES AGAINST INCREASED EXCHANGE RISK; (3) SENTIMENT AMONG MILAN BANKERS SEEMS TO BE THAT SHARP DECLINE IN LIRA EXCHANGE RATE SINCE LAST WEEK IS NOT JUSTIFIED BY ECONOMIC FACTORS; AND (4) FOREIGN BORROWING POSSIBILITIES TO DEFEND LIRA ARE STILL RATHER GOOD. END SUMMARY.

2. MILANESE BANKERS WERE UNANIMOUS IN VIEWING ITALIAN ECONOMIC SITUATION AS IMPROVED OVER SITUATION DURING PREVIOUS TREAS ATT VISIT IN DECEMBER 1972. TO CONSIDERABLE EXTENT, INCREASE IN ACTIVITY IS TAKING FORM OF INVESTMENT IN INVENTORIES. THIS REFLECTS DECLINE IN INVENTORY LEVELS DURING RECESSIONARY YEARS, FEAR OF FURTHER INCREASES IN WORLD PRICES OF PRIMARY COMMODITIES AND HEDGING AGAINST ADDITIONAL DEVALUATION OF LIRA. BANKERS ACTIVE IN MEDIUM- AND LONG- TERM CREDIT FIELD ALSO REPORTED SOME EVIDENCE OF INCREASED DEMAND FOR CREDIT TO FINANCE FIXED INVESTMENT. THIS DEMAND SEEMED TO BE COMING FROM SMALL AND MEDIUM FIRMS AS WELL AS FROM LARGE FIRMS. SOME BANKERS REPORTED THAT THEIR CLIENTS HAD FULL ORDER BOOKS FOR MONTHS IN ADVANCE AND THAT SOME HAD HAD PERCEPTIBLE INCREASE IN BUSINESS PROFITS IN 1972.

3. SHARP BUILD- UP OF INVENTORIES OF IMPORTED RAW MATERIALS WAS ONE OF CHIEF FACTORS RESPONSIBLE FOR FOUR- MONTH TRADE DEFICIT AND FOR WEAKENING OF LIRA ON EXCHANGE MARKETS DURING WEEK JUNE 11-15 (SEE REFTEL). BANKERS, INCLUDING EXCHANGE TRADERS, SEEMED PUZZLED AND NERVOUS ABOUT UNEXPECTEDLY SHARP DROP OF LIRA, ESPECIALLY ON JUNE 14. THEY DID NOT BELIEVE THAT ITALY' S COMPETITIVE POSITION VIS- A- VIS ITS EUROPEAN PARTNERS HAD FALLEN TO EXTENT TO JUSTIFY A DEVALUATION OF 20-35 PERCENT OF LIRA WITH RESPECT TO OTHER EC CURRENCIES. HOWEVER, UNCERTAINTY ABOUT ITALIAN GOVERNMENT' S ABILITY TO FIGHT INFLATION EFFECTIVELY WAS MAJOR FACTOR BEHIND THEIR PESSIMISTIC VIEW OF LIRA. SOME BANKERS POINTED OUT THAT FORWARD RATE FOR FINANCIAL LIRA DID INDICATE EXPECTATION THAT LIRA WOULD BE STRONGER IN COMING MONTHS. APART FROM WORSENING TRADE DEFICIT, IT APPEARS THAT CAPITAL FLIGHT IS ALSO CONTINUING. ALTHOUGH REGULATIONS ON PAYMENT TERMS WERE MADE MORE RESTRICTIVE IN JANUARY, IT IS STILL POSSIBLE TO LIMITED OFFICIAL USE

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EXPORT BANKNOTES AND TO OVER- INVOICE OR UNDER- INVOICE IMPORTS OR EXPORTS, RESPECTIVELY. ALSO, IT IS SAID TO BE POSSIBLE FOR CAPITAL FLIGHT TO TAKE THE FORM OF BANK TRANSFERS, ALTHOUGH MILAN BANKERS CLAIMED THEIR RESPECTIVE BANKS WERE NOT DOING SO.

4. BANKERS AGREED THAT DUAL EXCHANGE MARKET WITH FLOATING LIRA IN BOTH MARKETS HAS NOT YET HAD ANY OBVIOUS ADVERSE EFFECT ON

FOREIGN TRADE, ALTHOUGH SOME SAID THEIR CLIENTS WERE CONCERNED ABOUT MEDIUM AND LONG TERM CONTRACTS. THERE HAS BEEN SOME INCREASE IN PREVIOUSLY MODEST LEVEL OF COVERING WITH FORWARD CONTRACTS, BUT COST OF COVER SAID TO BE RATHER EXPENSIVE. FIRMS WHICH BOTH EXPORT AND IMPORT AND MULTINATIONAL FIRMS ARE ABLE TO BALANCE FOREIGN EXCHANGE POSITION INTERNALLY. ONE BANKER SAID THAT SOME CLIENTS BELIEVE THAT THEY ARE ABLE TO FORECAST EXCHANGE RATE MOVEMENTS ADEQUATELY ON THEIR OWN AND ARE WILLING TO ACCEPT RISK OF GAIN OR LOSS.

5. RE LARGE AMOUNT OF EUROMARKET BORROWINGS BEING MADE BY ITALIAN STATE ENTITIES, SEVERAL US BANKERS SAID THAT THEIR PARENT BANKS WERE NOT GREATLY CONCERNED ABOUT EXTENT OF EXPOSURE. THEY POINTED OUT THAT DURING PREVIOUS BALANCE OF PAYMENTS DIFFICULTIES IN 1969-1970 ITALIAN STATE ENTITIES HAD MADE CUMULATIVE BORROWINGS OF ABOUT \$2 BILLION. SINCE MOST OF THIS HAD BEEN PAID OR EVEN PREPAID BY EARLY 1972, THEY FELT THAT ITALY COULD ONCE AGAIN TAP EUROMARKET FOR UP TO \$2 BILLION WITHOUT GREAT DIFFICULTY. EXCHANGE OFFICE DATA THROUGH END- MAY INDICATE \$850 MILLION IN SUCH BORROWING, OF WHICH \$650 MILLION WAS BY IMI AND \$200 MILLION BY ICIPI. PRESS HAS JUST ANNOUNCED ADDITIONAL PLANNED BORROWINGS OF \$200 MILLION BY IRI AND \$150 MILLION (NOT PREVIOUSLY REPORTED \$200 MILLION) BY STATE RAILWAYS. COMMERCIAL BANKS ALSO SEEM TO BE HAVING LITTLE DIFFICULTY IN BORROWING AT SHORT- TERM IN EUROMARKET. DECON 12/31/77. VOLPE

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